Worker-Firm Dynamics with Seniority Bargaining[1]

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We provide microfoundations for worker seniority (a worker's tenure relative to the tenure of all her co-workers at the firm) as natural bargaining device in large firms with stochastic product demand and irreversible firm-specific investments required for each newly hired worker. The firm and its workers simultaneously bargain for layoff order and wage schedule, whereupon infra-marginal senior workers get wage premia and layoff insurance relative to their junior colleagues. Buhai et al (2014, ECTA) have shown empirically that wages increase and job exit hazard decreases with seniority, on exhaustive linked-employer-employee-data from Denmark and Portugal. Using the same data split by narrow industry level, and econometric methodology combining Buhai and Teulings (2014, JBES) and Buhai et al (2014, ECTA), we show that the seniority profile in wages proxies the return to the extent of worker-firm specific investments.

JEL codes: C51, C78, J31, J63

References:

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